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USSR:

Gorbachev Puts Up a Fight, Wins Reelection

A hard-hitting speech by Gorbachev on the eve of his reelection as General Secretary suggests he is not daunted by criticism of his economic and foreign policies or by concessions to the traditionalists in the draft party program.

Interrupted by frequent applause, Gorbachev strongly defended the foreign, economic, and party policies that traditionalist delegates have assailed over the past week. He challenged those in high posts who disagree with his foreign policies to resign. In an attempt to silence alarms about moving to a market economy, he argued that attempts to "darn and patch" the command management system are futile and insisted that only a regulated market with social welfare provisions will improve living standards. He chided hardline delegates who cling to the past, asserted that "the end has come to the CPSU's monopoly on power," and called on party members to cooperate with nonparty groups to solve the country's problems.

Eight candidates were nominated for the post of General Secretary, including Politburo members Shevardnadze, Yakovlev, and Minister of Internal Affairs Bakatin; ultimately only Gorbachev and a party official from a Russian mining town competed in the secret ballot election. Gorbachev won with 3,411 votes, but more than 1,000 deputies voted against him.

In other business, the party congress amended and tentatively approved the draft party program, which Politburo member Medvedev said made unspecified concessions to the traditionalists.

Comment: The congress seems poised to elect a new party leadership that will include many traditionalists and to approve a program that makes concessions to their concerns. The amendments to the party program and the number of votes against Gorbachev testify to the traditionalists' strength. But Gorbachev's speech makes clear that he does not intend to adopt their agenda. He probably hopes he can slow the traditionalists' momentum and rouse like-minded delegates to push hard for his policies in the congress's final days. A key test will come today when the congress is expected to elect Gorbachev's new deputy.

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Cuban Dissident Roberto Luque, *Izvestiya*, 30 June 1990

"Fortunately, the Supreme Commander in Chief is a unique phenomenon in our history: no one will fill the vacuum, which will arise on his death or his departure from the political arena . . . this system can exist only with Soviet subsidies, and the USSR cannot cope with its own irrational and inefficient economy while fattening ours. . . . I . . . throw down a challenge to you, Fidel. I suggest that you call a plebiscite, which will decide your fate and ours. I promise you that you will lose it."

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USSR:

Third World Clients Taken To Task

A number of recent articles in the Soviet press have implicitly questioned Moscow's role in the developing countries and its de facto support of Third World dictators.

Izvestiya has carried highly critical articles on the regimes in Angola and Ethiopia. Last week it published the Soviet media's first personal criticism of Fidel Castro—a thinly veiled attack on his personality cult and monopoly on power—and quoted at length a Cuban dissident who challenges Castro to hold a plebiscite.

Soviet media are also more critical of North Korea. A *New Times* piece on the origins of the Korean War blames P'yongyang—with Stalin's backing—for initiating hostilities and credits Washington with mitigating some of Syngman Rhee's bellicose intentions. In contrast, recent articles in the military newspaper *Krasnaya zvezda* continue to accuse the US of starting the Korean War and hail Cuba as a "priceless asset that must be preserved."

Comment: The media mirror differences in Moscow over managing relations with expensive Third World clients whose erratic behavior complicates US-Soviet relations.

The Soviet press, although highly critical of economic relations with Cuba, in the past has been restrained in discussing Cuban politics. *Izvestiya's* criticism undoubtedly means some officials want to distance the USSR from the increasingly anachronistic Castro regime. Nonetheless, the Soviet leadership almost certainly will continue to sustain the Cuban relationship, albeit with smaller economic outlays; it does not want to jeopardize important intelligence dividends or raise doubts among prospective friends or allies about Moscow's reliability as a partner.

Media commentary on Korea is an indication of a growing dispute over whether Moscow should abandon the North for a more lucrative relationship with Seoul. Increasing criticism signals President Kim Il-sung that Moscow will no longer publicly support his positions when they clash with larger Soviet goals, especially relations with the South. It probably is also meant to nudge P'yongyang toward reform and progress in North-South relations.

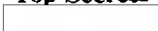
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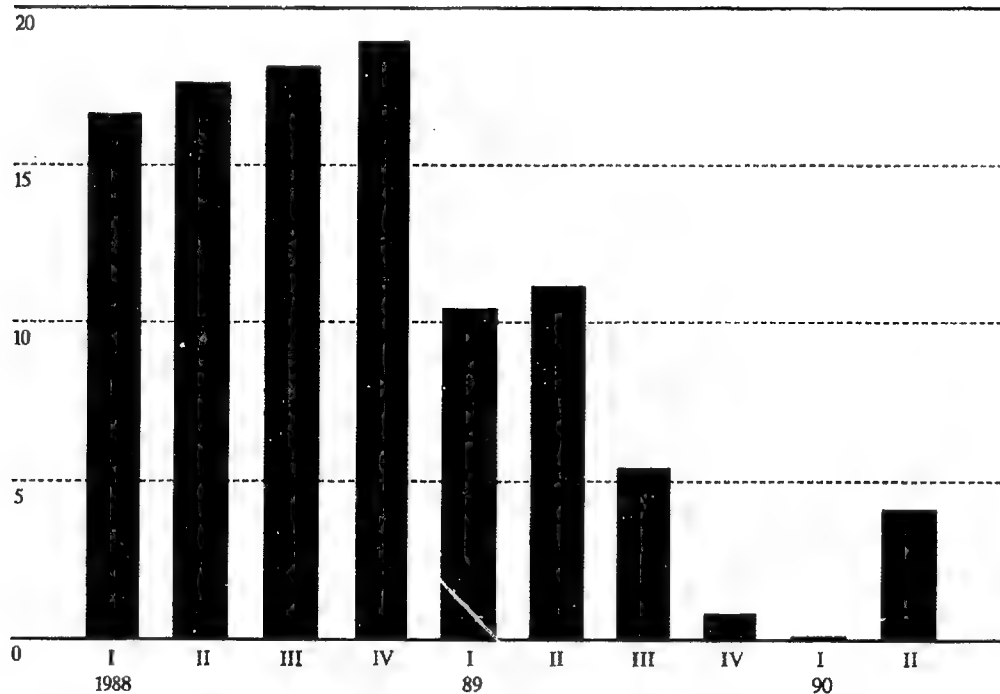
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China: Growth of Industrial Output, by Quarter ^a

Percent



^a Compared with same period in previous year.

Source: Official Chinese statistics.

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CHINA:

Economic Performance Mixed

China's economy is showing signs of revival, according to recently released official statistics, but a stagnant state sector and growing budget deficit will continue to slow recovery.

Industrial output grew nearly 6 percent last month, as compared with June of last year—the largest increase in 10 months; industrial growth for the first six months of the year was 2.3 percent. Official statistics indicate growth occurred primarily in the nonstate sector; rural firms expanded 5.8 percent and private and foreign-funded enterprises 39.7 percent.

Inflation in the first five months was 4.1 percent, down from 17 percent last year. Exports through June claimed 15.4 percent above the same period last year to \$25.6 billion, while imports dropped 17.6 percent, yielding a \$2.2 billion trade surplus.

Industrial output in the state sector increased only 0.5 percent in the first six months over the same period last year. Weak consumer demand caused profits from state factories to fall 59 percent in the first half and slowed tax revenue growth. Describing China's financial situation as grim, Finance Minister Wang Bingqian announced Sunday that China posted a \$233 million budget deficit in the first six months.

Comment: Although the failure of the state sector to respond to the infusions of central bank credit over the past six to eight months will continue to retard recovery, Beijing is likely to retain its current policies over the near term. The government will continue to give the inefficient state sector priority over the more dynamic nonstate sector in granting access to credit, raw materials, and energy. Although Beijing must heavily subsidize the state sector and may face yet another record budget deficit, the leadership appears prepared to do so in an effort to control inflation, which it regards as a greater threat to social stability than the current economic slump.

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CUBA: Dissidents Seek Refuge in Czechoslovak Embassy

Five Cuban dissidents and two students have taken refuge at the Czechoslovak mission in Havana, creating a potentially volatile situation for the Castro regime. The dissidents claim their action was motivated by fear of arrest after their request to travel to Czechoslovakia was denied by Havana. The students, claiming discontent with Cuba's political system, have applied for asylum in Czechoslovakia. Cuba is insisting the activists surrender, but a Czechoslovak diplomat said they may remain at the Embassy. Last month Presidents Castro and Havel exchanged angry letters over the persecution of other Cuban dissidents.

Comment: Castro is determined to contain the situation at the Embassy. He may believe concessions would encourage other activists and spark a run on embassies like those that have destabilized hardline regimes in Eastern Europe. Cuba's relations with Prague are already badly strained, and Havana probably has little to lose, even if a long standoff results.

NICARAGUA: Army Presence Brings Uneasy Calm

The Army is complying with President Chamorro's order to clear the streets in Managua; it is unclear if the Sandinista-dominated military is willing to remove striking workers from government offices. Police and Army units began removing barricades in Managua yesterday; vehicular and pedestrian traffic was light and unobstructed. In contrast to Monday, police units were positioned to prevent the rebuilding of dismantled barricades.

Scattered clashes between government supporters and striking workers continue in several neighborhoods, leaving a number of wounded. Most government ministries are still occupied by striking workers, but there have been no recent reports of additional violence in them. Electric power remained sporadic throughout the city, although access to food markets was reestablished.

Comment: Chamorro and Sandinista leader Daniel Ortega have called for a dialogue to resolve the dispute. The relative lull in activity may spur efforts to reinitiate negotiations.

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BULGARIA: Hopes and Fears

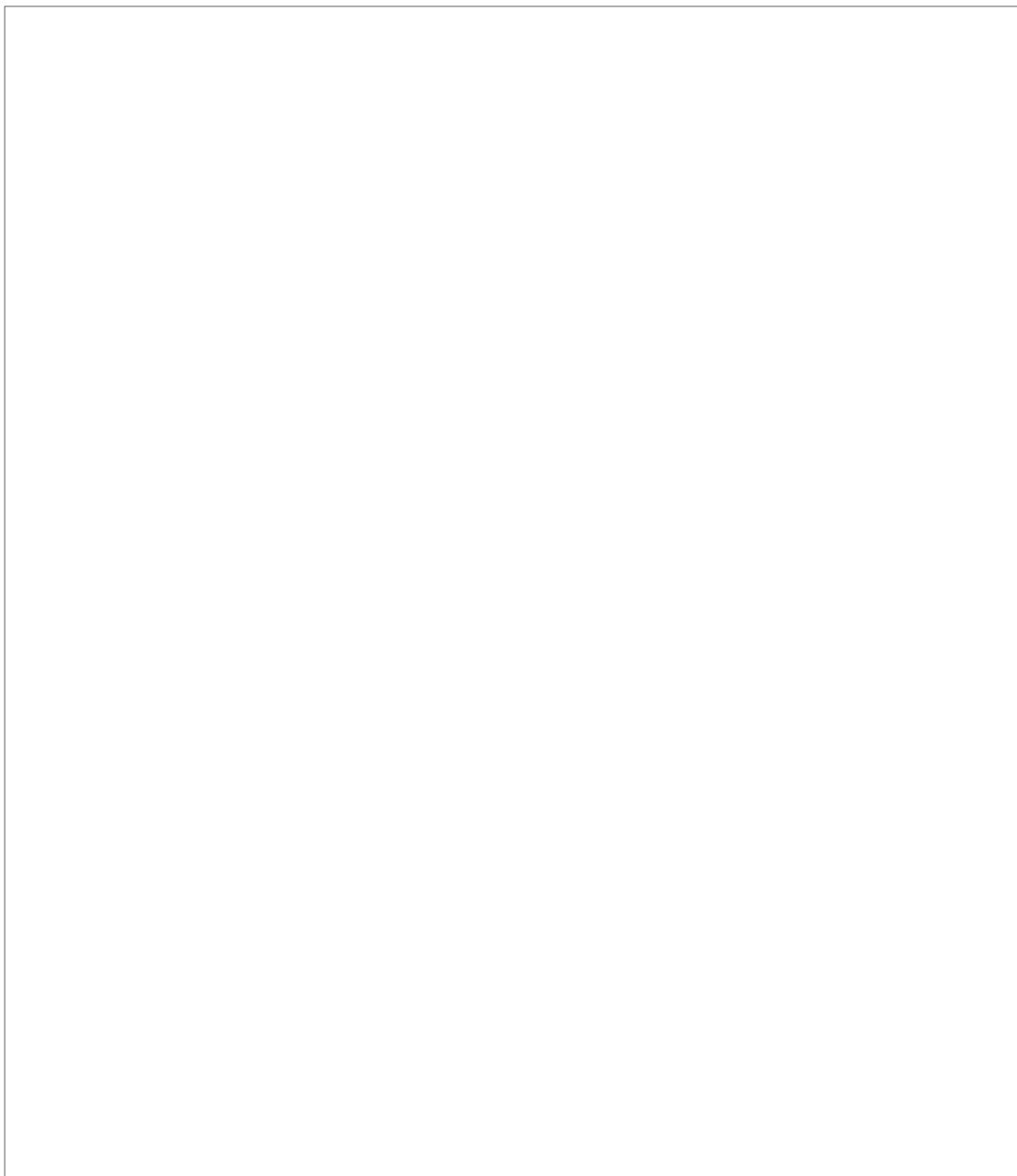
Bulgaria's first democratically elected multiparty legislature in 40 years opened yesterday in an atmosphere of uncertainty and tension. Student strikers, buoyed by their success in forcing President Mladenov to step down, are now calling for the resignation of Premier Lukanov and other leading officials considered tainted by their Communist Party past. Anti-Turkish demonstrations occurred outside the legislature, and the head of the Muslim party—the third largest in the assembly—was prevented from making opening remarks. The assembly is to elect a president by next month and draft a constitution within 18 months.

Comment: The country's two major political faultlines—anti-Communist versus Communist and ethnic Bulgarians versus Muslim Turk—have widened since the national election last month, making it difficult for the Communist government to win support for painful economic reforms. The former Communists, now the ruling Bulgarian Socialist Party, appear increasingly prepared to support a non-Socialist candidate for president in order to persuade the opposition to join in the government and share responsibility for reform. If the opposition remains unpersuaded, the government faces the prospect of growing demonstrations, strikes, and ethnic violence.

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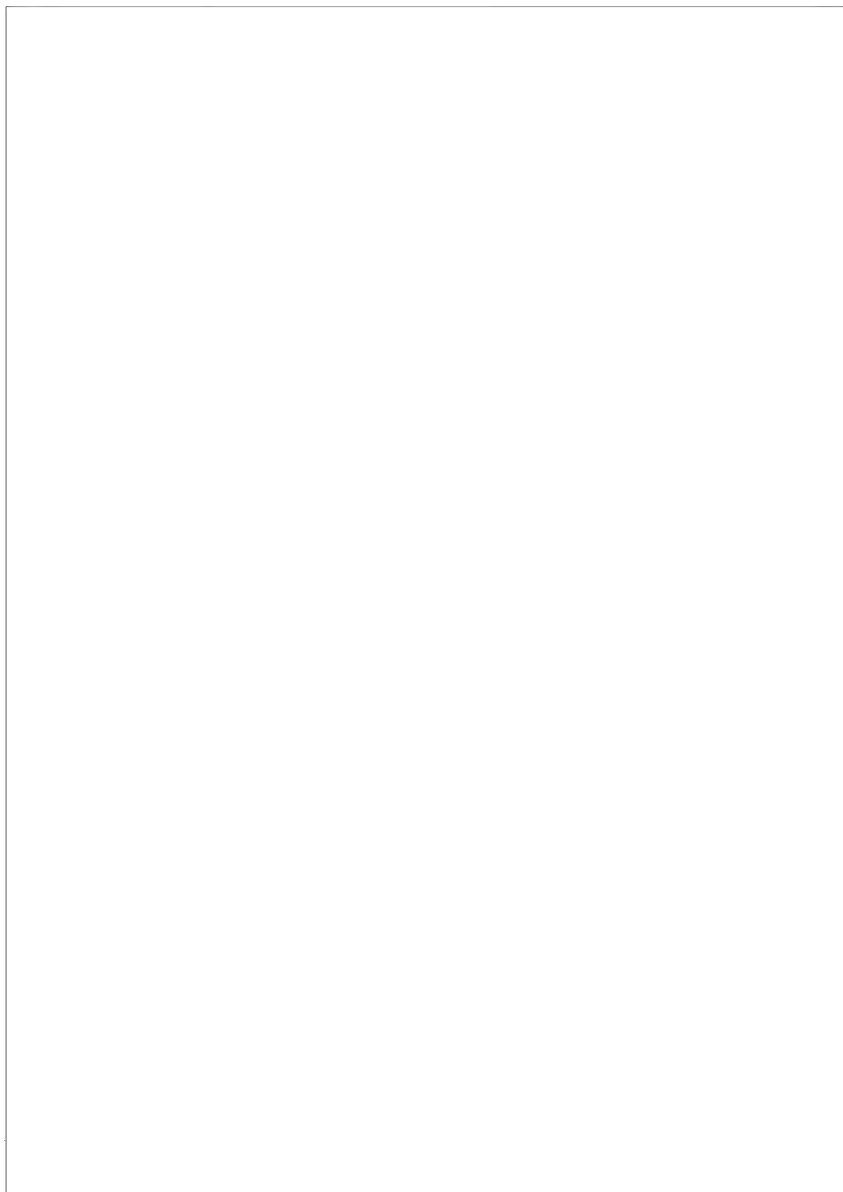


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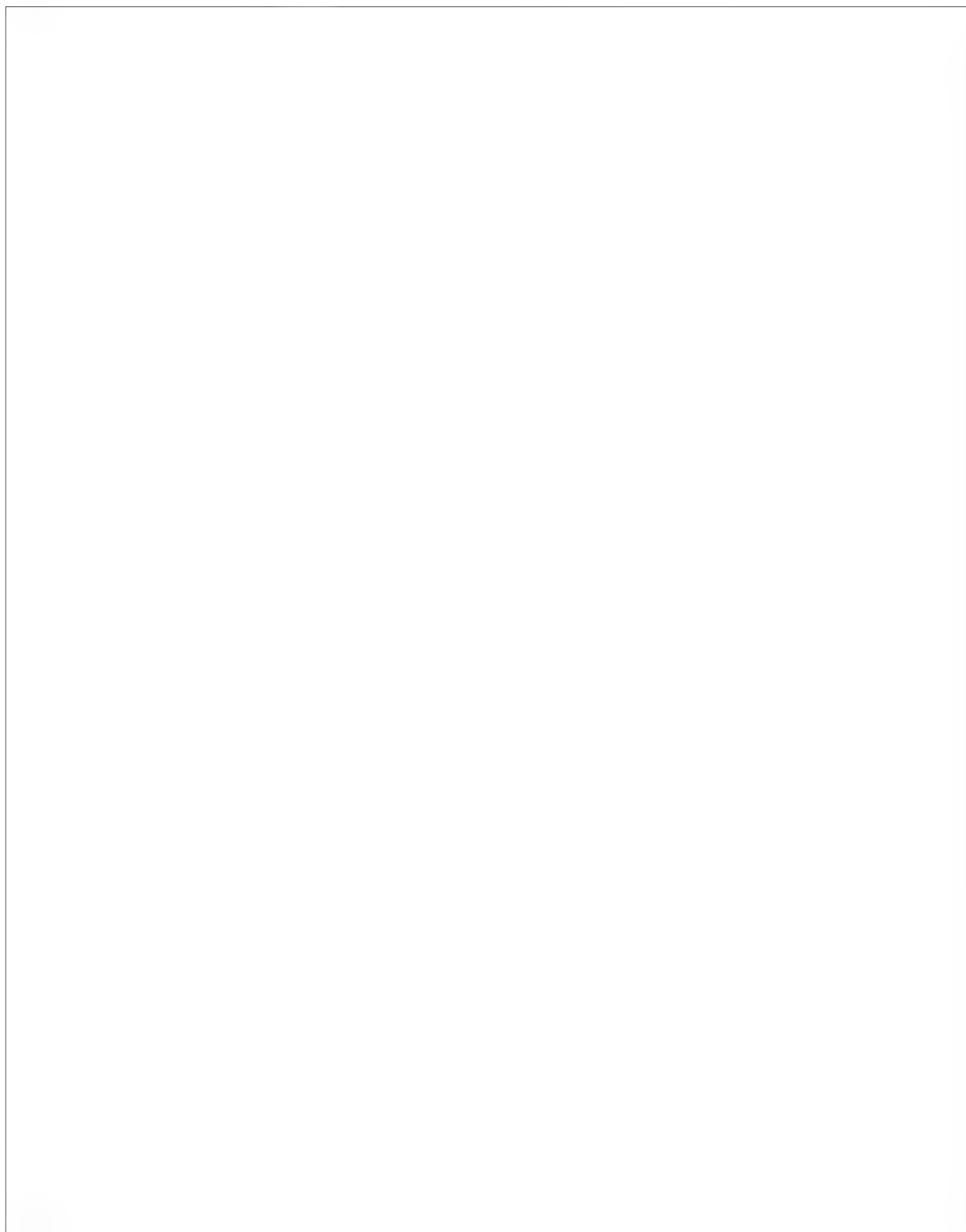


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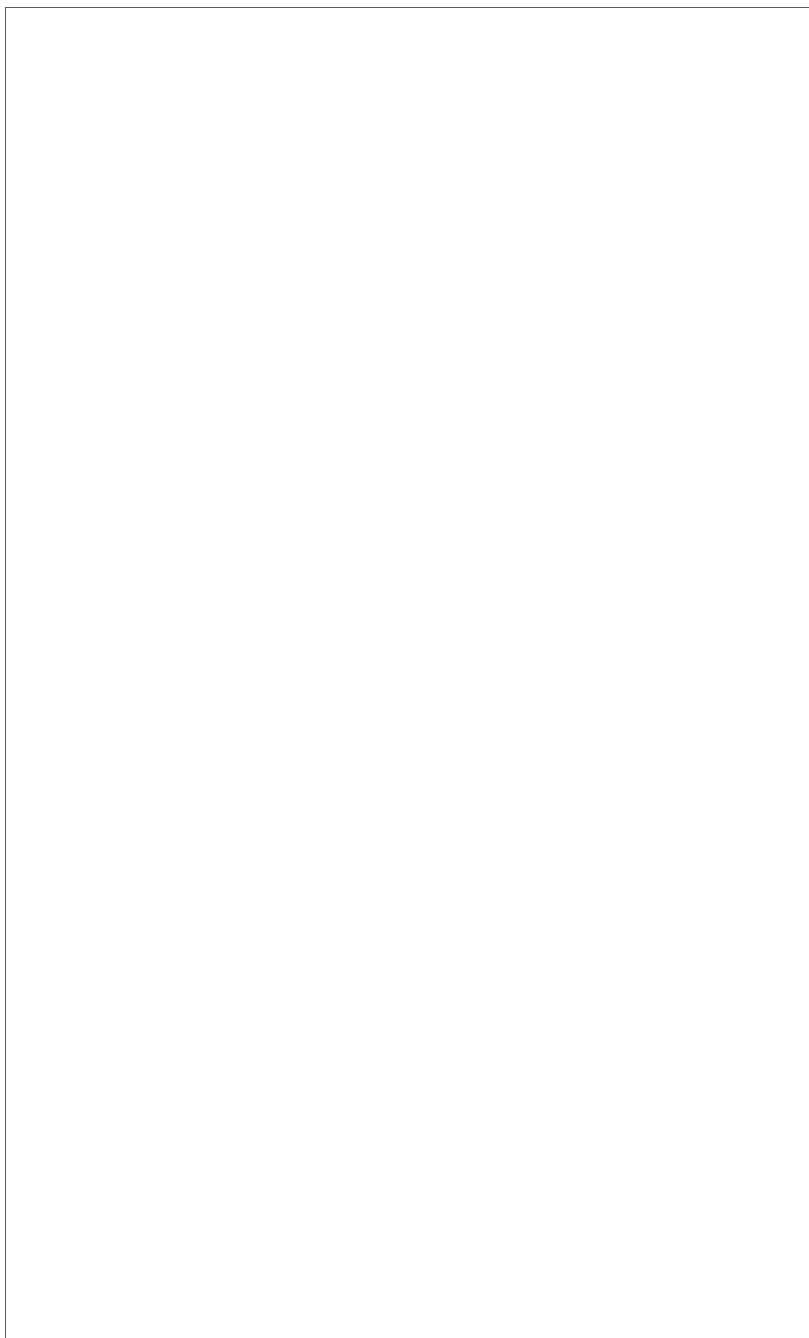


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LEBANON: Economy Improving Despite Political Stalemate

Lebanon's battered economy is showing signs of recovery, although sustained economic growth hinges on a comprehensive political settlement. [redacted] most Christian ports are open and goods are flowing between Christian and Muslim sections of Beirut. Food and fuel supplies are adequate for several months, and utility services damaged in fighting earlier this year have been restored to most of the city. Lebanese businessmen are funding some repairs, and industrial activity is approaching 30 to 60 percent of 1988 levels. [redacted]

Comment: The resilience of the economy bodes well for future reconstruction efforts. The value of the Lebanese pound continues to slide, however, and President Harawi failed during his recent tour of Gulf states to secure foreign aid commitments for Lebanon's International Aid Fund. Both point to a lack of confidence in the government's ability to move toward national reconciliation. Numerous potentially divisive issues such as participation of Christian leaders in the Cabinet and the dispensing of funds could lead to renewed infighting. [redacted]

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In Brief

USSR

— Soviet coal miners in Donetsk banned Communist Party organization from mine Monday . . . miners increasingly assertive, their planned daylong nationwide strike today will focus on political rather than economic demands.

Africa

— Liberian army, rebels skirmishing near Paynesville on outskirts of capital . . . rebel leader Taylor playing down threat from rival rebel faction . . . peace talks to resume in Sierra Leone today if rebel delegation arrives as scheduled.

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Special Analysis

USSR:

Food Outlook Is Dismal

Food is likely to remain in tight supply despite larger-than-average crops expected this year.

Survey data indicate that most Muscovites believe the food situation is getting worse; agriculture overseer Ligachev acknowledged as much in an interview before the party congress opened. On Saturday, according to Soviet press reports, military aircraft were ordered to transport fruit and vegetables from the south to northern regions in a costly attempt to improve food supplies in needy areas that may be prone to strikes.

Food distribution has deteriorated as the center loses control—republic and local leaders keep food at home and farm managers ignore state procurement goals. Moreover, an increasing amount of food that does get into the distribution system never reaches state store shelves. Despite stiffened penalties, more than twice as many trade and public catering workers were fined for theft and black-market activity last year as in the year before, and anecdotal evidence suggests the trend is continuing.

Panic buying in late May and early June in response to proposed retail price increases has depleted inventories. Although rationing, setting limits on amounts sold, and restricting sales to local residents eased the panic, inventories in some areas are now adequate for only two weeks or less. Officials prefer to have four to eight weeks of stocks on hand.

A bumper grain crop is expected, and favorable weather suggests production of other crops will be up. But losses also will be high because farms are facing unusually serious shortages of fuel, equipment, and machinery. Moreover, for the first time since 1985, the USSR is not likely to achieve the target for annual meat output, largely because of feed shortages.

Regional disparities are likely to intensify: areas that are major food producers such as Stavropol' and Krasnodar Oblasts will be better off while those that produce less food such as Sverdlovsk and Tyumen Oblasts, or rely largely on one crop as do parts of Central Asia, will be worse off. The elderly, those in poor health, and low-income groups will have even more monotonous and probably less nutritious diets than they now have.

The Soviet press recently reported widespread malnutrition in Turkmeniya, a major crop producer. According to Soviet statistics, residents there consume almost 20 percent less food on average than those in the Russian Republic.

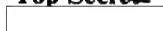
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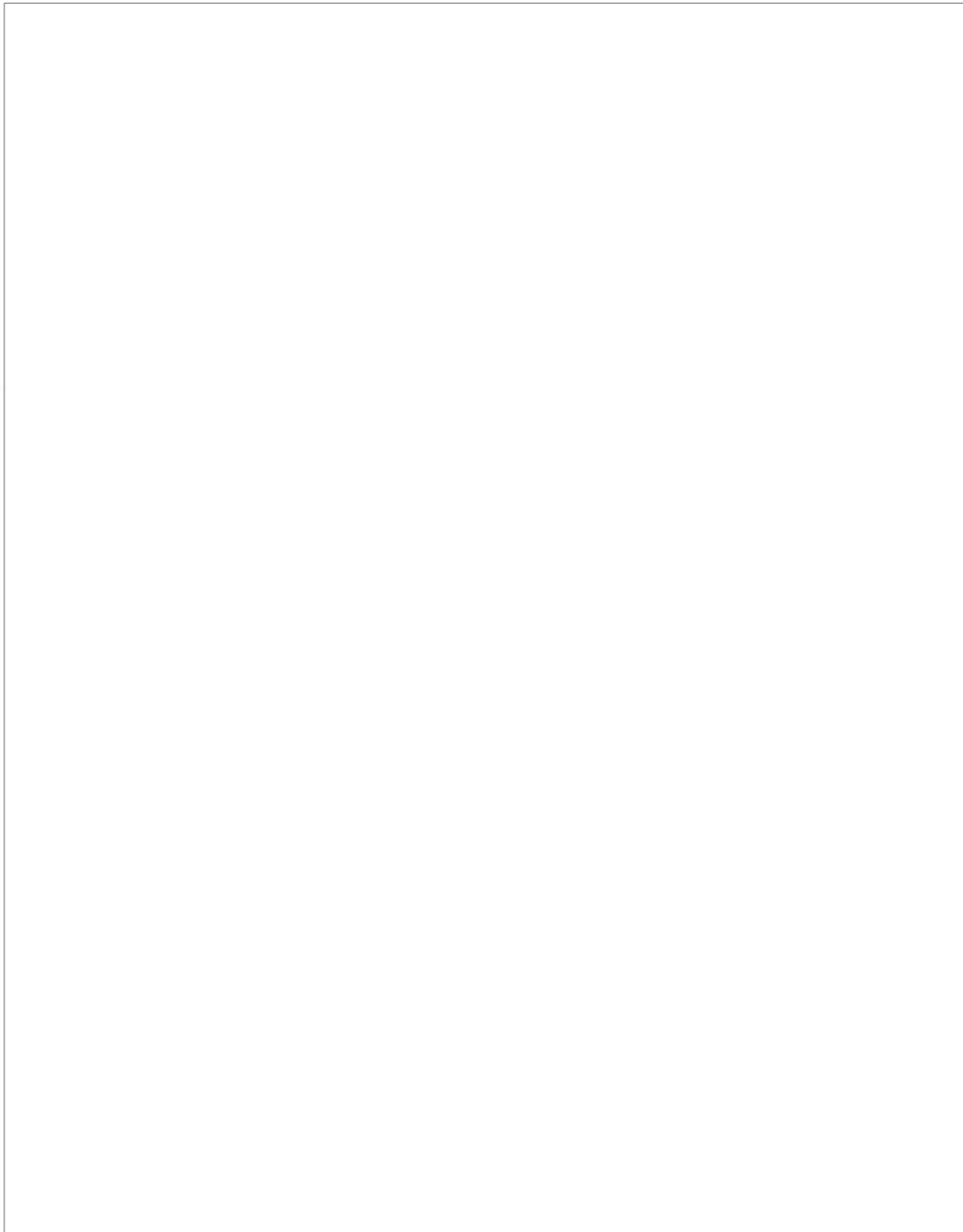
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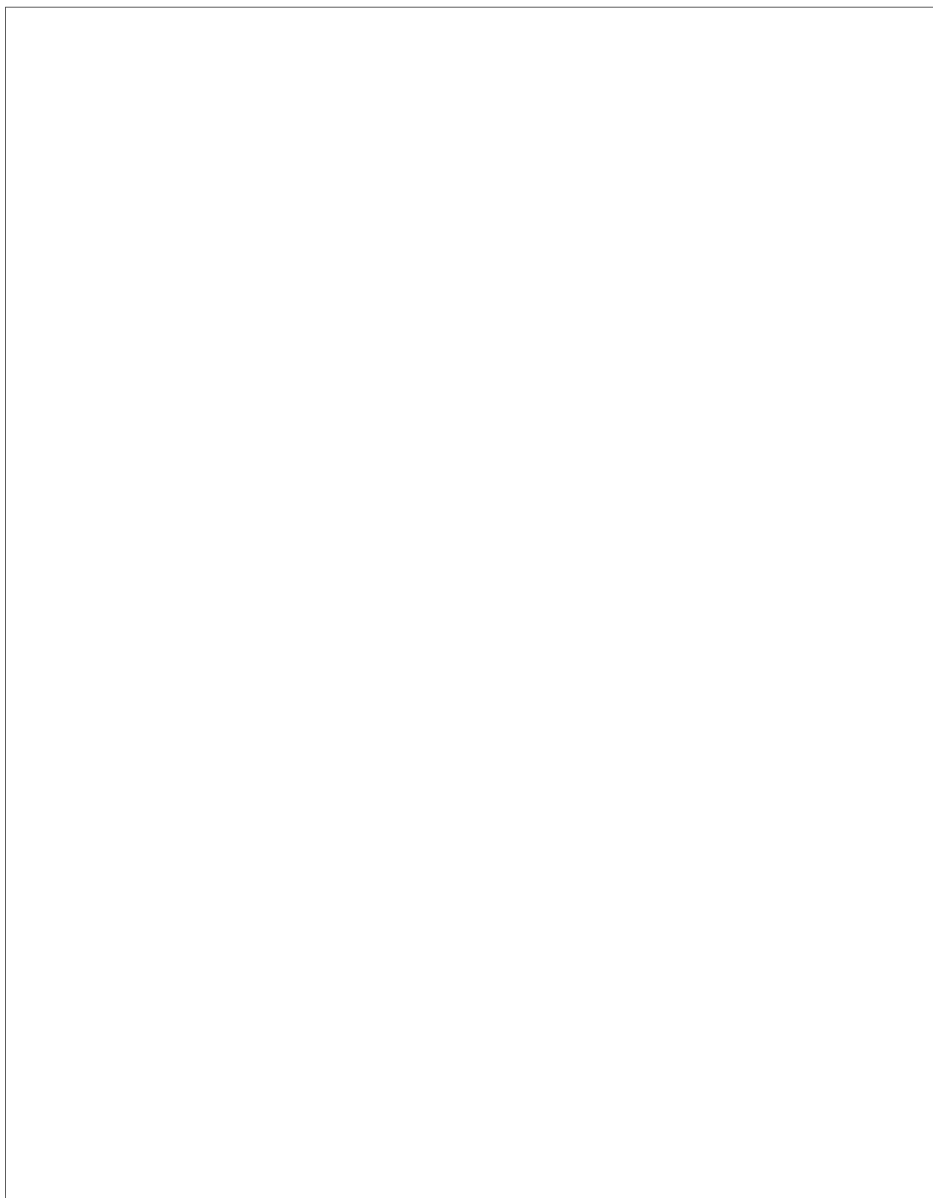


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